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United Nations Office for Project Services

Annual report of the Executive Director on the activities of the United Nations Office for Project Services*

Elements of a decision

The Executive Board may wish to:

(a) Welcome the progress of the United Nations Office for Project Services (UNOPS) in implementing measures to improve its effectiveness and efficiency in line with its business strategy.

(b) Take note of the 2006 statement of revenues and expenditures, and of the fact that UNOPS contributed $8.9 million to its operational reserve.

(c) Take note of the high level of 2006 business acquisition, which demonstrates the viability of the UNOPS business model and continuing trust on the part of UNOPS partners.

*The compilation of data required to provide the Executive Board with the most current data has delayed submission of the present document.

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Introduction

1. The Executive Director is pleased to inform the Executive Board that steady progress has placed UNOPS on firmer footing as a reliable, viable service provider having much to offer the United Nations system and other clients. With a new UNOPS senior management team in place and its staffing nearly full, and with the financial clean-up exercise that was a major pre-occupation in 2006 completed, there is room for cautious optimism for the future. Corporate needs that involve business basics are comprehensible, largely self-imposed and therefore controllable, and can be addressed with recognized tools. The application of appropriate management techniques can re-inspire well-deserved confidence in UNOPS and fuel its delivery of greater services to the United Nations system. That process has already begun, with predictable and positive results.

2. Nevertheless, the Executive Director cautions Member States and staff about the uncertainties affecting the UNOPS business environment, ranging from the ultimate direction of overall United Nations reforms and the decisions of individual clients, to operational conditions in many of the countries where UNOPS has its largest undertakings. This calls for realistic expectations and business planning, and enhanced risk management approaches.

3. The transition of UNOPS headquarters from New York to Copenhagen is nearly complete. The final step in this process is the restructuring of the UNOPS finance and audit teams, which began in the fourth quarter of 2006 and will finish by July 2007. New institutional structures are in place in Africa, New York, and Geneva. A number of measures to revamp the organization are, as reported below, already in place or in the process of implementation. UNOPS has taken care to minimize the impact of these necessary changes on staff, and to maintain the quality of services provided to clients throughout this year-long process.

I. Implementation of the UNOPS business strategy: providing world-class management services at the United Nations

4. The business strategy set forth in the fourth quarter of 2006 articulated the direction that UNOPS will take during the next three years to achieve recognition as a world-class service provider at the United Nations. UNOPS strategic goals address four interrelated perspectives, namely those of: client and stakeholder; internal business process; growth and learning; and finances. To implement its business strategy, UNOPS is working towards achieving long-term financial viability that will, in turn, enable it to invest in staff competencies, improve its business processes, and achieve its clients' goals.

A. Client and stakeholder perspective

5. The overarching objective of the UNOPS strategy is to help expand United Nations system capacity to implement peacebuilding, humanitarian, and development projects. UNOPS is committed to enhancing its accountability and transparency with clients and stakeholders. To that end, UNOPS has introduced performance measures – such as 'dashboards' with real-time financial reporting – to support management for results and foster a culture of accountability.

6. UNOPS is dedicated to strengthening relations with its clients and stakeholders, and building mutual trust with strategic partners is a core strategic

objective. UNOPS is pleased to report that its relationship with UNDP has improved markedly. Management in both organizations are actively pursuing avenues of collaboration that will benefit both. Concrete examples include a memorandum of understanding with the UNDP Regional Bureau for Latin America and the Caribbean and an initiative by the UNDP Regional Bureau for Africa to encourage country offices to take full advantage of UNOPS capacity in the region. Furthermore, at the time of preparing this report, discussions on a potential merger with IAPSO were making good progress.

7. During 2006 UNOPS expanded project implementation services for partners such as the United Nations Department for Peacekeeping Operations, the United Nations Children's Fund, and others. UNOPS management sees encouraging opportunities for UNOPS to play a larger role in supporting peacekeeping operations with procurement and logistics services. Guidance and support from Member States on this would be most welcome.

B. Internal business process perspective

8. To serve its different clients more efficiently and effectively, UNOPS is building a more responsive organizational structure supported by state-of-the-art business practices. In 2006 UNOPS began reviewing processes related to UNOPS project delivery. To date, 13 standard operational procedures have entered service for such practices as: Aligning procurement actions with the new procurement manual, revising budgets with approval and management controls that prevent over-expenditures, and applying consistent pro-forma costing and pricing at project start-up.

9. UNOPS has made considerable progress improving finance procedures that ensure timelier reporting, and that raise the quality of reporting while mitigating financial risks. In the fourth quarter of 2006 UNOPS started migrating imprest transactions into the Atlas system with the goal of transferring 80 per cent of total imprest transaction volume. Moreover, UNOPS introduced procedures on 1 January 2007 relating to financial advances to projects pending receipt of funding.

10. Significant progress was made in 2006 to further strengthen the UNOPS procurement function. A new procurement manual was developed in 2006 and took effect on 1 January 2007. The manual has improved delegation of authority procedures to support accountability and compliance with financial rules and regulations. Furthermore, the manual established new procedures for procurement conducted for emergency situations, to safeguard and enhance operational efficiency. Roll-out of these advances has been supported by a global training effort (described below).

11. In early 2007 UNOPS also launched a system to streamline submission and review of cases sent to the headquarters Contracts and Property Committee. The new system has improved the consistency and quality of submissions and reinforced valuable checks and balances, thereby strengthening accountability while shortening the submission and review cycles.

12. UNOPS is determined to improve the efficiency and effectiveness of its human resources practices. A new human resources strategy presented in the last quarter of 2006 introduced several innovations. A unified, individual contractor agreement—to be issued shortly—will reduce costs related to the administration of such contracts and improve the contractual arrangements and working conditions of non-staff personnel. UNOPS is also reviewing its Performance Review and Appraisal system to improve the criteria by which staff are evaluated. This will now link staff performance criteria to UNOPS strategic goals and objectives.

C. Learning and growth perspective

13. To serve its clients better, UNOPS will enhance its internal capacity by investing continuously in staff competencies for the core services of the organization, namely project management and procurement.

14. An extensive, organization-wide procurement training initiative followed the release of the new procurement manual. Most UNOPS offices have already received training in procurement, and UNOPS senior executives have completed training on risk management in procurement.

15. UNOPS has launched a pilot finance certification programme, and plans to make certification mandatory for all finance staff. The preparation of project management certification is currently being finalized. To reinforce learning and competency across the organization, UNOPS will establish an information technology-based learning platform.

16. In the fourth quarter of 2006, the organization introduced an initiative to foster a culture of knowledge sharing. UNOPS has inaugurated nine communities of practice to date, with positive initial results, and has enhanced communication among staff across the organization.

17. To augment staff involvement and internal communications, UNOPS polled staff attitudes in the first quarter of 2007. The survey, completed by 522 staff members, confirmed high levels of personal commitment by staff to make the organization successful, and confidence in the future of UNOPS and in the leadership of the organization. Staff reported that communication and transparency in corporate decision-making, job satisfaction, transparency in recruitment, and cooperation between regional offices and headquarters, all enjoyed remarkable improvement in 2006. Indeed, staff feedback is encouraging, when contrasted with that of sister organizations. As is common in such polls, there were some critical comments on issues such as promotions and staff rewards, which UNOPS has begun to analyse by region to find solutions. This survey will be conducted annually to track trends reflecting actions taken and to monitor the evolving work environment at UNOPS.

D. Financial perspective

18. UNOPS operations require a secure financial footing, so long-term financial viability is its strategic objective. UNOPS is making steady progress on that front. In 2006 UNOPS delivered $706 million and achieved a net surplus of $8.9 million, which was added to the UNOPS operational reserve.

19. A 'dashboard' with real-time financial data debuted in the fourth quarter of 2006. The timely information it contains is accessible by all staff and helps UNOPS monitor financial performance on a continuous basis, thereby boosting the ability to manage the organization on the basis of reliable information. In part dependent on such data, UNOPS is finalizing a new pricing policy to be issued during 2007.

20. UNOPS is introducing an automated project start-up tool addressing functions such as risk assessment and the costing of staff benefits and liabilities. The tool improves project launch and monitoring, and increases the ability of UNOPS to identify financially unviable projects at an early stage.

II. Financial review: 2006 operational results

A. Summary of 2006 financial results

21. The Executive Board may wish to take note of the closure of the UNOPS financial books for 2006 in March 2007, which compares favourably with other United Nations organizations.

22. 2006 was a challenging year for UNOPS. The United Nations Board of Auditors (BOA) could not complete its examination of the financial statements for the biennium ending 31 December 2005 due to a host of accounting and finance issues, as well as to a series of other managerial and operational weaknesses identified during its preliminary review. The BOA audit observations were similar to those it had raised in the report on the 2002-2003 financial statements, which left auditors unable to express an opinion on the accounts. At the request of the new Executive Director, the Executive Board, at its annual session 2006, approved an extension until November 2006 for UNOPS to certify the 2004-2005 financial statements and present them for audit. That deadline was met on 22 November 2006, and BOA returned on 27 November 2006 to complete its examination.

23. The adjusted 2004-2005 financial statements certified by the Executive Director and presented for audit resulted in an operational reserve of $4.4 million after an exceptional refund of oil-for-food costs of $14.5 million and allocation of $9.4 million for potentially non-recoverable items. Much of this bad debt provision related to UNOPS project activities with UNDP dating back to the 1998-2003 period and reflected in the UNDP/UNOPS inter-fund account. Overall, the 2004-2005 results did not differ significantly from those reported in the spring of 2006 (the reserve stood at $4.4 million compared to the $5.1 million reported previously), but individual balance sheet accounts did change considerably.

24. Regrettably, the BOA audit report was delayed by several months, and at the time of preparing the present report the results had not yet been issued. The audit opinion is likely to include – but not necessarily be limited to – the lack of regular reconciliation of the UNDP/UNOPS inter-fund account, the need to increase the operational reserve to its statutory level, internal control deficiencies, and the increased provisions for write-off during the period. The audit report is expected before the annual session 2007 of the Executive Board.

25. Financial clean-up entailed significantly more work than had been anticipated. Nevertheless, UNOPS learned important lessons and made several improvements in 2006. Finance procedures were reinforced and strengthened to improve data integrity, and business processes underwent review to enhance the timeliness and accuracy of financial data. As a result, UNOPS submitted 2006 financial statements and project financial statements to UNDP and other major clients in a timely manner.

26. The 2006 unaudited financial statements show delivery of $706 million, which generated fees of $47.7 million (6.7 per cent), compared to delivery of $903.4 million and fees of $60 million (6.6 per cent) in the year before. The principal reason for decreased delivery was, as envisaged, the reduced activities associated with the Afghanistan elections. Total 2006 income was $62.9 million (including income from advisory services (essentially loan and grant supervision), rentals, and other sundry income and prior-year items; projects in post-conflict and emergency operations contributed 56 per cent of the income). Expenditures amounted to $54.6 million, including a net $7.7 million contribution by the Government of Denmark for relocation expenses.

27. Loan supervision services for the International Fund for Agricultural Development (IFAD) and grant supervision services for the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) remain an important source of income. However, because the 2006 pricing agreement between IFAD and UNOPS does not fully cover UNOPS indirect costs, it is under renegotiation.

28. The 2006 surplus increased the operational reserve by $8.9 million, from $4.4 million to $13.3 million. While UNOPS is making steady progress replenishing the reserve, it remains below the statutory requirement of $30.3 million for 2007 (an increase from $27.4 million for 2006, in accordance with the established formula).

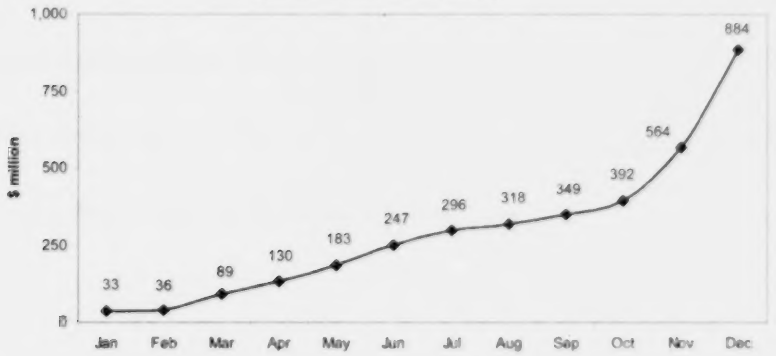
29. UNOPS recognizes that it is premature to make conclusive predictions concerning its 2007 business performance. That notwithstanding, expenditures and purchase orders for the first quarter of 2007 amount to $279.3 million, and acquisition of new business is $221 million. Comparable figures for the first quarter of 2006 were $255 million and $89 million respectively. If continued, the current trend should allow UNOPS to exceed the targets set for 2007 of $612 million in delivery and a year-end operational reserve level of $17.2 million.

30. UNOPS appreciates that unforeseen liabilities, such as the unreconciled amounts in the UNDP/UNOPS inter-fund account, and risk factors such as the deteriorating security situation in post-conflict operations could affect 2007 results.

B. Business acquisition in 2006

31. Continuing engagement by key United Nations partners yielded strong results during the year (see figure 1). The $713 million business acquisition target for the implementation portfolio was surpassed by 24 per cent.

Figure 1. Implementation portfolio: 2006 cumulative monthly acquisition (in millions of dollars)

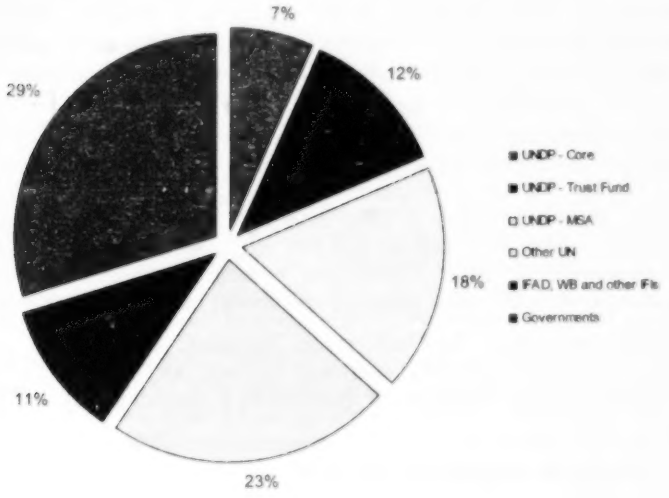


32. Analysis of UNOPS business acquisition indicates that half derives from emergency and post-conflict operations and half relates to United Nations development work. Moreover, some two-thirds of new business required project management services.

33. Of all implementation portfolio business acquired in 2006, 11 per cent was with International Financial Institutions and 29 per cent with Governments (see figure 2). UNDP demand for UNOPS services remained stable, accounting for 37 per cent of total business acquired, of which 7 per cent was direct service to UNDP

core-funded projects. 23 per cent of business was with other United Nations organizations.

Figure 2. Implementation portfolio: distribution of 2006 business acquisition (expressed as percentages)



Annex
2006 revenue and expenditures
(in millions of dollars)

	2006 actual
Delivery amount	**706.0**
Revenue from implementation of project portfolio	53.4
Revenue from advisory and services only	9.5
Total revenue	**62.9**
Regular administrative expenditure salary and benefits	23.1
Regular administrative expenditure general and administrative	23.1
Administrative expenditure to provide services for IFAD and GF	8.4
Total administrative expenditure	**54.6**
Excess of income over expenditure	**8.3**
Prior period adjustments	0.6
Net (shortfall)/excess of income over expenditure	**8.9**
Operational reserve beginning of period	**4.4**
Operational reserve end of period	**13.3**

* Expenditures from the transition budget are excluded